

Message Text

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ACTION EB-08

INFO OCT-01 ARA-10 ISO-00 AID-05 OMB-01 FRB-03 XMB-02

CEA-01 SP-02 SS-15 CIAE-00 INR-07 NSAE-00 COME-00

/055 W

-----005776 080318Z /64

R 070101Z SEP 77

FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 4820

INFO TREASURY WASHDC

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EO 11652: N/A

TAGS: EFIN MX

SUBJECT: GOM CABLE TO DEVELOPMENT COMMITTEE EXECUTIVE
SECRETARY.

REF: MEXICO 14994

1. BELOW IS THE TEXT OF CABLE SENT BY GOM/BANK OF MEXICO
TO SIR RICHARD KING THAT IS REFERRED TO IN REFTEL.

BEGIN TEXT:

1. THE WORKING GROUP ON ACCESS TO CAPITAL MARKETS
(WGACM) HAS REALIZED SOME PATH BREAKING WORK ON A SUBJECT
WHICH HAS BEEN CONSIDERED OF GREAT PRACTICAL AND POLITICAL
IMPORTANCE BY THE DEVELOPING COUNTRIES, AS EVIDENCED BY
THE DISCUSSIONS IN THE DEVELOPMENT COMMITTEE AND IN THE
RECENT CONFERENCE ON INTERNATIONAL ECONOMIC COOPERATION.

2. IT IS EVIDENT THAT THE ISSUES INVOLVED IN PROMOT-
ING ACCESS TO CAPITAL MARKETS (ACM) WILL REQUIRE A SUS-
TAINED EFFORT OVERTIME TO IDENTIFY THE MAIN ISSUES, TO
FIND PRACTICAL SOLUTIONS AND TO MARSHAL THE NECESSARY
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POLITICAL SUPPORT. NEVERTHELESS THE MEXICAN DELEGATION
HAS BECOME CONCERNED THAT RECENTLY THE WORK OF THE WORKING
GROUP HAS ENVOLVED TOWARDS MARGINAL ISSUES OR THOSE INICIA-
IVES THAT HAVE LITTLE CHANCE OF COMMANDING SUPPORT FROM
DEVELOPED OR DEVELOPING COUNTRIES, ESSENTIALLY BECAUSE
THEY ENTAIL NO ADDITIONALITY OR DUPLICATE EXISTING INSTI-
TUTIONS.

3. IT IS PARADOXICAL THAT WHILE THE PROBLEM OF ACCESS TO CAPITAL MARKETS HAS BECOME AN INCREASINGLY IMPORTANT INTERNATIONAL ISSUE AS SHOWN BY DISCUSSIONS BY MONETARY AUTHORITIES, LEGISLATIVE HEARINGS AND A WIDE NUMBER OF FINANCIAL PUBLICATIONS, THE FORUM OF THE WGACM, WHERE SOME OF THESE DISCUSSIONS INITIATED AND WHICH SHOULD HAVE A COMPARATIVE ADVANTAGE BECAUSE IT GROUPS THE FINANCIAL AUTHORITIES OF DEVELOPED AND DEVELOPING COUNTRIES AND INTERNATIONAL ORGANIZATIONS WHICH ARE THE PRIMARY SOURCES OF INFORMATION, HAS DWINDLED IN ITS IMPORTANCE AND CONCENTRATED IN MORE INCIDENTAL, LESS INTERESTING ASPECTS.

4. THE MEXICAN DELEGATION CONSIDERS THAT THE IMPORTANT CHANGES THAT HAVE TAKEN PLACE IN THE INTERNATIONAL CONTEXT SINCE WORK BEGAN IN THE WGACM, HAVE MODIFIED THE ORIGINAL ASSESSMENT OF THE PROBLEM.

5. THERE IS A TENDENCY FOR ACCESS TO CAPITAL MARKETS TO BECOME MORE RESTRICTIVE FOR PROBABLY, THE WRONG REASONS. THERE IS A NEED FOR AN OBJECTIVE ANALYSIS OF THE CAUSES OF SUCH TENDENCY AND TO EXAMINE THE UNFAVOURABLE CONSEQUENCE OF GREATER RESTRICTIONS. IS THE PROBLEM OF FOREIGN LOANS REALLY SIGNIFICANT COMPARED TO DOMESTIC LOANS? HAVE BAD LOANS OCCURRED MORE FREQUENTLY IN THE INTERNATIONAL SPHERE THAN IN THE DOMESTIC SPHERE? IS THE PROBLEM OF THE INFOR-

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MATION TO COMMERCIAL BANKS ABOUT FOREIGN COUNTRIES THE CRITICAL ISSUE? DON'T LARGE BANKS GENERATE SUFFICIENT INFORMATION? HAS FOREIGN LENDING NOT REALLY BEEN A FUNCTION OF IDLE FUNDS, EXCESS LIQUIDITY AND INSUFFICIENT DOMESTIC DEMAND? DO BANKS, IN TERMS OF THEIR PROFIT MOTIVATION, LEND TO RISKY CLIENTS MORE BECAUSE OF THE GREATER SPREAD THEY EARN? WHAT WOULD HAPPEN IN TERMS OF THE INTERNATIONAL ADJUSTMENT PROCESS IF LOANS ARE NOT FORTHCOMING? IS INTERNATIONAL LENDING NOT A CUSHION WHEN INDUSTRIAL ECONOMICS BECOME DEPRESSED? IS THERE NOW A PROBLEM OF EXCESSIVE DOLLARS REFLOWS TO THE U.S.? WAS NOT CAPITAL INADEQUACY A GREATER PROBLEM THAN THE EXPANSION OF FOREIGN LOANS? THERE ARE EXAMPLES OF SOME OF THE ISSUES THAT CAN BE EXAMINED.

6. THE MEXICAN DELEGATION BELIEVES THAT THE WORKING GROUP WITH THE FULL COOPERATION OF THE INTERNATIONAL ORGANIZATIONS THAT HAVE ATTENDED THE MEETINGS OF DEVELOPMENT COMMITTEE CAN UNDERTAKE A THOROUGH STUDY OF THE BASIC STRUCTURAL AND ANALYTICAL FRAMEWORK REGARDING THE PROBLEM OF ACCESS TO CAPITAL MARKETS. THIS STUDY WOULD ENTAIL:

A) AN EXAMINATION OF THE INFORMATION REGARDING THE STOCKS

AND FLOWS OVER TIME OF DIFFERENT FORMS OF LENDING TO
DEVELOPING COUNTRIES INCLUDING SUPPLIERS CREDIT, SYNDICATED
LOANS, BOND ISSUES AND TO ASCERTAIN THE SIZE OF POTENTIAL
MARKETS WHICH LDC'S DO NOT AT PRESENT TAP, SUCH AS THE
INSTITUTIONAL INVESTORS MARKETS; B) AN ANALYSIS OF THE
CYCLICAL FACTORS WHICH DETERMINE THE VOLUME AND CONDITIONS
OF LENDING TO LDC'S, SUCH AS THE DEPRESSION OR RECOVERY OF
INDUSTRIAL ECONOMIES, THE LIQUIDITY OF FINANCIAL INSTITU-
TIONS, THE PROFIT BEHAVIOUR OF COMMERCIAL BANKS, ETC.;
C) A THOROUGH EXAMINATION OF THE STRUCTURAL AND INSTITU-
TIONAL OBSTACLES TO ACCESS WHICH HAS NOT YET BEEN REALLY
FULLY CARRIED OUT, INCLUDING AN EXAMINATION OF FEDERAL,
STATE MUNICIPAL LAWS AND ALSO OF THE WIDELY ESTABLISHED

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ACTION EB-08

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PRACTICES THAT EFFECTIVELY LIMIT ACCESS.

7. THE STUDY OF THIS FRAMEWORK CAN NOT BE CONSIDERED
ACADEMIC. FIRSTLY, BECAUSE THE PROBLEM OF FOREIGN CREDIT
HAS BECOME SUCH A TOPICAL ISSUE THAT ANY STUDY HAS IMPOR-
TANT PRACTICAL AND POLITICAL IMPLICATIONS. SECONDLY
BECAUSE ON THE BASIS OF THE STUDY A PRACTICAL COURSE OF
ACTION CAN BE OUTLINED. THIRDLY, BECAUSE THE WGACM IS A
FORUM THAT HAS A COMPARATIVE ADVANTAGE, TO AVAIL ITSELF
OF A THOROUGH STUDY, TO MAKE A DIAGNOSIS OF THE PROBLEM
AND TO ESTABLISH CONCRETE COURSE OF ACTION. END TEXT.
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